

“Interconnecting Europe's regions for sustainable growth”

By Tor Eigil Hodne, SVP European Affairs, Statnett, meeting with the Kangaroo Group – European Parliament, Strasbourg 14 January 2015

Statnett is a leading European interconnector company. We are the electricity system operator in Norway, and take a leading role in the market coupling in Europe. In addition, we are just about to make investment decision for the longest interconnectors in the world, linking Norwegian hydro to Germany (2018) and UK (2020). These major achievements towards a European Internal Energy Market depend on the EU's political leadership for making free movement of electricity with a stable regulatory environment and a strong carbon price as well as clear price signals, possible. Therefore, we share with the Kangaroo group a strong belief in the rapid acceleration of the internal market regulations in this area, to create a true Energy Union.

A. Interconnection is a prerequisite for internal market and growth

Interconnectors provide high social and economic welfare (SEW) in the EU, which is characterised by the ability of a power system to reduce congestion and thus provide an adequate transmission capacity so that electricity markets can trade power in an economically efficient manner. Revenues from transmissions are re-invested in further interconnectors. Diversification of sources improves competition and drives down prices. The integration of RES lowers CO2 emissions and thus external environmental costs. Sound energy infrastructure is a key prerequisite for industrial competitiveness. Better use of national potentials (e.g. hydro in Scandinavia) improves energy security.

The interconnectors aim at better market operations through capacity allocation on the intraday market and provide fair markets due to increased price harmonisation.

B. The Internal Energy Market needs better regulation

Regionalisation is an approach, a way to accept a different integration modus operandi – but cannot work magic wonders alone. The EU ETS should be the main policy to spur IEM investments in support of the emission reduction target. The proposed market stability reserve must be in place well ahead of 2021 for this to work. The EU should support regions by pointing to their specific role and function in the internal energy market – and establish differentiated interconnection targets for Member States and regions, taking into account current situations and needs. Interconnection should be particularly prioritised between member-states/regions with complimentary energy mixes, or between areas with large RES shares and those with large storage capacities.

The Energy Union will need to embrace a wide range of issues, along the five pillars listed below. Better regulation, mostly through implementation and reviews of

existing regulation is therefore needed. For the achievement of an Energy Union it is indispensable to ensure the smooth adoption of all electricity network codes by the end of 2015 at the latest to ensure that key harmonised rules for the energy transition and the Internal Energy Market are put in place in a timely manner. The adoption and implementation of network codes is the foundation for the role of electricity systems operators in Europe.

C. Regionalisation is a necessary step towards European Energy security

Statnett believes in the internal energy market, that it is good for Europe, our economy, for consumers and for business. Our vision is a borderless, deeply interconnected European energy market that promotes cost efficiency, energy efficiency, and increased security of supply through cooperation. In line with the Kangaroo-group philosophy: No borders, free flow of energy – primarily electricity. These benefits are of long-term value for Europe. But they will also create many jobs in sectors where they are urgently needed, and may indeed be a prime example of projects to be financed by the new Strategic Investment Fund (EFSI).

We share in the disappointment that the 2014 deadline for IEM was missed. Now – with the Strategic Investment Fund and the Energy Union dominating discussions – there is a newfound optimism in the policy area, but a challenge is to keep up the pressure and momentum without commitment to a new deadline. Cooperating on energy is quite simply one of the most useful things the EU can do right now for Europeans. Encouraging regional integration projects is a way to keep up the pace.

Regionalisation brings energy policy closer to local communities and politicians and can increase “bottom up” pressure to implement the overall European objective – the integrated European electricity grid.

The top-down approach has proved to be inefficient, so new initiatives must be encouraged if we want to keep up the integration project in this and other policy areas. Remember that the grand European scheme was built on practical steps, mostly at a regional level. This needs to be done within an overall architecture as a point of reference and to ensure that the components work together in the end.

D. To be resilient, the Energy Union pillars needs a fundament and a roof

I have pointed out that regionalisation may increase commitment – but the more local energy policy becomes, the more important it is to make local communities and individual consumers committed. The role of the EU should be to facilitate regional integration – but that depends on stronger consumer involvement.

As a TSO, we know the importance of creating acceptance for infrastructure projects. Given the scale of the energy-revolution, the same principle of building acceptance and empowering participation must be used for EU energy policy.

Citizens and energy consumers must be equipped to become active and well-informed players in an ever-more complex energy system. This is fundamental to optimise the advantages of smart energy technology, and to enable the transition towards a more decentralised energy-system. I already mentioned the job-potential

in building the network, but let us not forget the potential for smart jobs when the grid is operating. The nexus between IT and smart energy grids will create a new market, and it is crucial that Europe contributes with solutions instead of buying them from China, Korea or the US.

Initiatives like this build a strong fundament for the five pillars in the Energy Union proposal and make the architecture more resilient. These actions could be based on the 'UN Energy for all Programme' and EU internet awareness actions providing education, training and tools particularly for the new generation of energy citizens. It builds knowledge of smart energy through new energy technologies. Importantly, consumers must be taught how to "energy shop" in a liberalized market. That will tear down the walls in the energy market and will facilitate the new market models we need in order to limit global warming to 2°C. Besides the training and information campaigns, politicians have a big responsibility here to steer this discussion into action.

Conclusion

A European integrated grid brings many different advantages to Europe. It will increase energy efficiency because we can exploit the topography and the different time and climate zones in Europe if we are better connected. It will reduce emissions through increased efficiency and better use of renewables at a pan-European level, and it will increase security of supply because we can cooperate when shortages occur and because we can utilise domestic European resources better.

So who can say no to a grand project that increases security of supply, reduces emissions, provides a framework for increasing competitiveness and creates many jobs? Regionalisation is not a threat to EU-wide integration efforts; it gives chance to learn and improve for (new) EU-wide rules. However, regionalisation should not lead to additional market barriers such as capacity markets. But local and regional ownership to energy policy may be the key to unlock the potential of the internal energy market.